

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF PRICE ADJUSTMENT

Docket No. R2012-06

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(February 21, 2012)

Pursuant to 39 U.S.C. § 3622 and 39 C.F.R. 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to temporarily adjust the prices for several market-dominant products within First-Class Mail® and Standard Mail®. This adjustment will take effect at 12:01 AM on July 1, 2012, and expire at 11:59 PM on August 31, 2012. The change ("2012 Promotion") will provide commercial mailers an upfront two percent discount on the prices for First-Class Mail® and Standard Mail® letters, flats, and cards (presort and automation), which include a qualifying mobile barcode ("mobile barcode" or "qualifying barcode")¹ or similar print technology inside or on the mailpieces. The mobile barcode must direct the recipients of the mailpieces to a mobile-optimized website that facilitates the purchase of a product or service, or to a personalized mobile website that is tailored to the recipient. The Postal Regulatory Commission ("Commission") approved a similar promotion in Docket No. R2011-5 ("2011 Promotion") (Order No. 731).

In this Notice, the Postal Service provides the information required by Rule 3010.14, including the proposed Mail Classification Schedule changes, which are

¹ A qualifying mobile barcode includes, but is not limited to, two-dimensional barcodes, digital watermarks, and digital image recognition.

provided in Appendix A. In addition, the Postal Service has included documents supporting its cost estimates for the 2012 Promotion, which are provided in Appendix B, and sample Postage Statement forms, which are provided in Appendix C. The remainder of this Notice is structured as follows. In Part I, the Postal Service provides a description of the promotion. In Part II, the Postal Service discusses the promotion's impact on Standard Mail Flats' compliance with 39 U.S.C. § 101(d). In Part III, the Postal Service describes the program's compliance with the price cap. In Part IV, the Postal Service discusses how the program's prices are consistent with the objectives and factors of section 3622, and the preferred pricing requirements of section 3626.

The Postal Service certifies that it will inform customers of these price adjustments, as required by Rule 3010.14(a)(3). In addition to this notice, the Postal Service will also issue a Press Release announcing the new pricing, and publish Federal Register and Postal Bulletin notices. Consequently, widespread notice of these prices will be given more than 45 days prior to their planned implementation date.

Ms. Michelle Yorgey will serve as the Postal Service official responsible for responding to any Commission inquiries pursuant to Rule 3010.14(a)(4). Ms. Yorgey's contact information is as follows:

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I. PROGRAM DESCRIPTION

BACKGROUND

The Primary intent of the 2011 Promotion was to increase the long term value of direct mail by promoting awareness of how mobile technology could be effectively integrated into mailers' advertising campaigns.² To accomplish this goal, the 2011 Promotion provided business mailers with a three percent upfront postage discount on Standard Mail and First-Class Mail letters, flats, and cards that contained a two-dimensional mobile barcode inside or on the mailpiece.³ Qualifying barcodes needed to promote, market, or educate the recipient about a product or service.⁴

Customer participation in the promotion greatly exceeded the initial expectations of the Postal Service,⁵ thus achieving the promotion's goal. Indeed, the 2011 Promotion demonstrated how dramatically a postage discount can influence mailer behavior. During the two-month promotion period over 4,000 unique customers participated, and over 76,000 mailings qualified for the discount. In addition, subsequent discussions with participating customers revealed that some mailers used the promotion savings to invest in the infrastructure needed to continue integrating mobile technology with direct mail. These investments further demonstrate that the discount positively influenced mailer behavior and improved the long term value of direct mail.

² See Docket No. R2011-5, United States Postal Service Notice of Market-Dominant Price Adjustment (April 12, 2011), at 2.

³ *Id.*, at 1

⁴ *Id.*, at 2-3.

⁵ Compare Docket No. R2011-5, Response of the United States Postal Service to Chairman's Information Request No. 2, at 1 (May 11, 2011) (stating that the Postal Service expected to issue between \$1.54 and \$4.63 million in discounts during the 2011 Promotion) with Docket No. R2011-5, Mobile Barcode Promotion Program Report, at 2 (November 25, 2011) (demonstrating that the Postal Service issued \$34.13 million in discounts during the 2011 Promotion).

Building upon the awareness generated by the 2011 Promotion, the Postal Service believes that it is now important to encourage mailers to integrate more advanced uses of mobile technologies – and the “best practices” associated with those technologies – into their mail campaigns. For instance, while many 2011 Promotion participants followed the best practice of directing the recipient to a mobile optimized web page, some did not. The effectiveness of an integrated direct mail campaign cannot be maximized unless such advanced uses and best practices are adopted by mailers.

Accordingly, the Postal Service has designed the 2012 Promotion to encourage mailers to accelerate their integration of more advanced mobile commerce and personalization techniques into their direct mail campaigns. While this targeted focus may limit participation in the promotion, it will allow for more meaningful participation.

Promotion Parameters

The 2012 Promotion provides business mailers with an upfront two percent discount on Standard Mail and First-Class Mail letters, flats, and cards (presort and automation) that include a qualifying barcode inside or on the mailpiece. The mobile barcode must be readable by a mobile device and must lead the recipient to either:

1. A mobile optimized webpage that allows the recipient to purchase a product or service on the mobile device, or;
2. A mobile optimized web page whose web address and content are unique to an individual recipient.

Mailers will be prohibited from, among other things, using mobile barcodes that direct recipients to websites for payment of prior purchases, or websites that encourage them to move to electronic statements or bill payment.

Registration Requirements

Participants (and/or mail service providers acting on the customers behalf) in the 2012 Promotion will be required to register for the promotion, and agree to its terms, at least 24 hours prior to the first qualifying mailing. The registration process will also ask mailers to specify which permits will be participating in the promotion, and to agree to participate in a survey at the end of the promotion period. The data collected from the survey will help the Postal Service better measure the results of the promotion.

The Postal Service plans to open registration around May 1, 2012. This proposed date will give prospective mailers an adequate amount of lead-time to make necessary preparations/investments in order to qualify for the promotion.

Postage Statement / Payment

Mailings must be submitted electronically via mail.dat, mail.xml, or Postal Wizard. Participating mailers will be required to affirmatively claim the 2012 Promotion on their electronic postage statement submissions, certifying that each mailpiece contains a qualifying barcode inside or on the mailpiece.⁶ All pieces included in a postage statement that claims the discount, must contain a qualifying barcode. Commingled, co-mailed, and combined mailings are allowed, but a separate postage statement is

⁶ A sample of the Postage Statement that will be used by participating mailers is attached as Appendix C.

required for mailpieces claiming the promotion discount. In addition, automation mailpieces must contain an Intelligent Mail barcode.

The 2012 Promotion discount must be claimed at the time of mailing and cannot be rebated at a later date. For the purposes of this promotion, each postage statement is considered a mailing. The two percent discount will be taken off the line item totals on each eligible line on the postage statement. Postage must be paid using a permit imprint, precancelled stamp permit, or qualifying meter mail.

Verification and Post-Mailing Requirements

When qualifying mailings are accepted, the mailer must provide an unaddressed hard copy sample of the mailpiece so that the acceptance clerk can check the placement of the mobile barcode. If a mailing contains mobile barcode mail from multiple mailers, a hard copy sample of each mailer's mailpiece must be presented. Further, if the mailer qualifies for the promotion based on their use of mobile personalization, at least two hard copy samples must be submitted in order to demonstrate that the web addresses are unique to each recipient. All mailings are subject to standard acceptance and verification procedures, and the use of the mobile barcode may be inspected.

During the promotion period and after the promotion period has ended, the Postal Service will conduct a random sample of mailpieces that qualified for the 2012 Promotion discount. The Postal Service will scan and read these samples to ensure that the customer mailings meet the requirements of the promotion.

Mailers are also required to retain an electronic or hard copy sample of the qualifying mailpieces until October 31, 2012. If requested by the Postal Service, mailers must forward such samples to the promotion program office.

Estimates of Revenue Forgone

As demonstrated in the Excel workbook attached as Appendix B, the Postal Service estimates that the 2012 Promotion could reduce revenue by \$16 million (low adoption scenario) to \$34 million (high adoption scenario).⁷

The short-term investment that the Postal Service expects to make (in the form of potentially foregone revenue) is intended to increase revenues in the future by improving the long term value of direct mail advertising to mailers.

II. STANDARD MAIL FLATS COMPLIANCE WITH 39 U.S.C. § 101(d)

In the FY 2010 Annual Compliance Determination Report (“ACD Report”), the Commission directed the Postal Service to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments.⁸ For subsequent market-dominant price adjustments, the Commission required the Postal Service to report “an explanation of how the proposed prices will move the flats cost coverage toward 100 percent” and “a statement estimating the effect that the proposed prices will have in reducing the subsidy of the Flats product.”⁹ Though the Postal Service’s compliance with the ACD provisions relating to Standard Mail Flats was

⁷ These estimates assume that no additional volume will be generated during the promotion period.

⁸ Docket No. ACR2010, Annual Compliance Determination Report, Fiscal Year 2010 (March 20, 2011).

⁹ *Id.* At 107

stayed pending the resolution of the Postal Service's petition for review,¹⁰ The Postal Service will briefly address the relationship between the Standard Mail Flats cost coverage and the temporary discount for Standard Mail Flats proposed in this docket.

This filing describes the Postal Service's intention to provide discounts to mailers, including Standard Mail Flats mailers, under certain conditions. If approved, those discounts will obviously have the short-term effect of lowering, rather than raising Standard Mail Flats postage revenues. Strictly speaking, the immediate effect of the discount does not further the goals of increased cost coverage and reduced subsidy that the Commission outlined, consistent with its reading of 39 U.S.C. § 101(d). However, the Postal Service does not believe that, by directing the Postal Service toward the goal of higher cost coverage for flats, the Commission intended to stifle all attempts to adopt innovations that would promote the goal of higher flats revenues in the long run. Indeed, when approving the inclusion of Standard Mail Flats in the 2011 Promotion, the Commission noted the need for the Postal Service to "exercise its flexibility and innovation in pricing and cost control," and that the promotion "may inform the Postal Service's long-term plans" to solve the cost coverage problem.¹¹ Since the 2012 Promotion encourages future revenue growth in Standard Mail Flats and other products by improving the long-term value of direct mail to advertisers, the Postal Service believes that the 2012 Promotion complies with the Commission's directive.

¹⁰ Docket No. ACR2010, Order No. 739, Order Granting Stay (May 27, 2011).

¹¹ Docket No. R2011-5, Order Approving Market Dominant Price Adjustment at 11 (May 17, 2001).

III. PRICE CAP COMPLIANCE

Consistent with past limited-availability discounts, including the 2011 Promotion, this program will be excluded from First-Class Mail and Standard Mail price-cap calculations pursuant to the procedures described in Rule 3010.24. Essentially, the Postal Service intends to ignore the effect of the price decrease resulting from the program on the price cap for both future and current prices. As a result, the Postal Service has made no calculation of cap or price changes described in Rules 3010.14(b)(1) through (4).

IV. Objectives and Factors, Workshare Discounts, and Preferred Rates

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service in this section discusses how the planned program “help[s] achieve” the objectives of section 3622(b) and “properly take[s] into account” the factors of section 3622(c); how the program impacts workshare discounts, and how its planned prices are consistent with section 3626.

A. Objectives and Factors

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
 - (2) To create predictability and stability in rates.
 - (3) To maintain high quality service standards established under section 3691.
 - (4) To allow the Postal Service pricing flexibility.

- (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
- (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
- (7) To enhance mail security and deter terrorism.
- (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.
- (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

To a large extent, the establishment of this program does not substantially alter the degree to which First-Class Mail and Standard Mail prices already address these objectives, or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9). The implementation of the 2012 Promotion is an example of the increased flexibility allowed the Postal Service under PAEA (Objective 4). Further, the fact that the program will encourage new mail volumes in the future enhances the financial position of the Postal Service (Objective 5).

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

- (c) Factors.—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
 - (A) either—
 - (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
 - (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and
 - (B) do not cause unreasonable harm to the marketplace.
- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;
- (13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and
- (14) the policies of this title as well as such other factors as the Commission determines appropriate.

As with the Objectives of section 3622(b), the establishment of this program does not substantially alter the degree to which First-Class Mail and Standard Mail prices address many of the factors of section 3622(c) (Factors 1, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, and 14). The program does encourage increased mail volume in the future (Factor 7). In addition, although the program will provide discounts to some mailpieces, it will not imperil the ability of either First-Class Mail or Standard Mail to cover its attributable costs (Factor 2).

B. Workshare Discounts

This program will not impact current workshare discounts.

C. Preferred Rates

This program does not exclude any mailers and will therefore not affect compliance with any preferred rate requirements.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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February 21, 2012

APPENDIX A

MAIL CLASSIFICATION CHANGES

(Additions are underlined and deletions are marked with strike-through)

Part A

Market Dominant Products

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1100 First-Class Mail

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1110 Presorted Letters/Postcards

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1110.4 Optional Features

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- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)
- Mobile Barcode Promotion (Expires August 31, 2012)

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1110.5 Prices

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Move Update Assessment Charge

Add \$0.07 per assessed piece, for mailings with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1115 Flats

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1115.4 Optional Features

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- Competitive Ancillary Services (2645)
 - Package Intercept Service (2645.2)
- Mobile Barcode Promotion (Expires August 31, 2012)

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1115.5 Prices

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Move Update Assessment Charge

Add \$0.07 per assessed piece, for mailings with less than 70 percent of mailpieces passing a Performance Based Verification at acceptance and which cannot demonstrate compliance with Move Update requirements.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1200 Standard Mail (Commercial and Nonprofit)

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1205 High Density and Saturation Letters

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1205.5 Optional Features

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- Ancillary Services (1505)
 - Address Correction Service (1505.1)
 - Certificate of Mailing (1505.6)
- Full-service Intelligent Mail Option
- Mobile Barcode Promotion (Expires August 31, 2012)

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1205.6 Prices

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- g. Customers will be given the option to participate under a Total Market (or National) Volume or a Specific Geographic Markets model.
 - Total Market (or National) Volume – Customers are measured by their total national mail volume of Saturation and High Density mail.

Customers must demonstrate increased total volume of Saturation and High Density mail letters and flats over the base year for their total market.

- Specific Geographic Markets – Customers will designate specific geographic target markets or specific Postal Service Sectional Center Facilities (SCFs) to demonstrate increased volume over their predetermined baseline. Customers can select up to 20 individual SCF areas in which to participate or up to 5 target markets (consisting of multiple contiguous SCFs). All geographic areas must be approved by the Postal Service during the application process. Customers will be required to have made the qualifying 6 mailings during FY 2010 for each market in which they plan to participate.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for commercial First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1210 High Density and Saturation Flats/Parcels

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1210.5 Optional Features

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- Full-service Intelligent Mail Option: high density flats only
- Mobile Barcode Promotion (Expires August 31, 2012)

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1210.6 Prices

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- g. Customers will be given the option to participate under a Total Market (or National) Volume or a Specific Geographic Markets model.
 - Total Market (or National) Volume – Customers are measured by their total national mail volume of Saturation and High Density mail. Customers must demonstrate increased total volume of Saturation and High Density mail letters and flats over the base year for their total market.
 - Specific Geographic Markets – Customers will designate specific geographic target markets or specific Postal Service Sectional Center Facilities (SCFs) to demonstrate increased volume over their predetermined baseline. Customers can select up to 20 individual SCF

areas in which to participate or up to 5 target markets (consisting of multiple contiguous SCFs). All geographic areas must be approved by the Postal Service during the application process. Customers will be required to have made the qualifying 6 mailings during FY 2010 for each market in which they plan to participate.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for commercial First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1215

Carrier Route

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1215.5

Optional Features

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- Full-service Intelligent Mail Option: letters and flats only
- Mobile Barcode Promotion (Expires August 31, 2012)

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1215.6

Prices

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Full-service Intelligent Mail Option: letters and flats only

Subtract \$0.001 for each carrier route letter or flat that complies with the requirements for the full-service Intelligent Mail option.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for commercial First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1220

Letters

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1220.5

Optional Features

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- Full-service Intelligent Mail Option: automation letters only

- Mobile Barcode Promotion (Expires August 31, 2012)

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1220.6 Prices

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Full-service Intelligent Mail Option: automation letters only

Subtract \$0.001 for each automation letter that complies with the requirements for the full-service Intelligent Mail option.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for commercial First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

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1225 Flats

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1225.5 Optional Features

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- Full Service Intelligent Mail Option: automation flats only
- Mobile Barcode Promotion (Expires August 31, 2012)

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1225.6 Prices

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Full-service Intelligent Mail Option: automation flats only

Subtract \$0.001 for each automation flat that complies with the requirements for the full-service Intelligent Mail option.

Mobile Barcode Promotion (Expires August 31, 2012)

Provide a two percent discount on the qualifying postage for commercial First-Class Mail and Standard Mail letters, postcards and flats sent using a permit imprint payment method, which include a two-dimensional mobile barcode inside or on the mailpiece, during the established program period, to mailers that comply with the eligibility requirements of the program.

APPENDIX B

Please refer to the excel workbook (*AppendixB.xls*) filed with this Notice.

APPENDIX C

Please refer to PDF attachment (*AppendixC.pdf*) filed with this Notice.